

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 1613 - SB 1856**

February 2, 2020

**SUMMARY OF BILL:** Creates the *Urban Agriculture Zone Act*. Establishes a procedure by which a municipality may create an Urban Agricultural Area (UAA). Requires applicable real property within the UAA to be assessed as farm property. Prohibits a municipality from enacting ordinances restricting farm practices within an UAA, with certain exceptions. Prohibits certain local governmental entities from imposing benefit assessments or special ad valorem taxes within the UAA, except in certain circumstances.

**ESTIMATED FISCAL IMPACT:**

**Increase Local Expenditures – Exceeds \$300/FY20-21/Permissive**

*Assumptions relative to the creation of an Urban Agricultural Area:*

- The proposed language establishes the following procedure:
  - A qualified farmer or partner organization submits an application to establish a UAA;
  - The municipality is then authorized to create an Urban Agricultural Area Committee (UAAC) to conduct the activities necessary to advise the municipality on the creation of an UAA;
  - The UAAC must contain five members who are residents of the municipality in which the proposed UAA is to be located; All members shall serve without compensation but are entitled to reimbursement of actual expenses;
  - The UAAC must hold a public hearing, with notice of the meeting being published in a newspaper; and
  - Following the public hearing, an ordinance designating the UAA may be adopted by the municipal legislative body.
- Based on responses to the 2017 Local Government Survey conducted by the Fiscal Review Committee staff, participating local government officials reported the average cost for a newspaper notification is \$114.
- The UAAC will seek reimbursement for any newspaper publication, resulting in a permissive increase in local expenditures of \$114.
- Any vote required of the municipal legislative body will be conducted at a regularly scheduled meeting.

*Assumptions relative to property valuation within the Urban Agricultural Area:*

- The proposed language requires real property located within the UAA that is used by a qualifying farmer for processing, growing, raising, or otherwise producing agricultural products to be assessed, in whole or in part, as farm property.
- Pursuant to Tenn. Code Ann. § 67-5-801:
  - Residential property is assessed at 25 percent of its value; and
  - Farm property is assessed at 25 percent of its value.
- Pursuant to Tenn. Code Ann. § 67-5-1004 and § 67-5-1008 (b)(2)(A), included in the definition of farm property is land classified as agricultural, forest, and open space. In order to be classified as agricultural, forest, or open space land, certain minimum acreage requirements must be met.
- The proposed language does not establish minimum acreage requirements which must be met for classification as farm property; however it is reasonably assumed that any property which would be classified as farm property under the provisions of the proposed legislation would have been classified as agricultural, forest, open space, or residential property in the absence of the proposed language.
- Any farm property located within an UAA will be assessed as its current rate; therefore any decrease in local government property tax revenue is estimated to be not significant.

*Assumptions relative to services within the Urban Agricultural Area:*

- The proposed language permits municipalities to authorize entities providing utilities within the UAA to allow applicable qualified farmers or partner organizations to:
  - Pay wholesale or reduced rates for service; or
  - Pay reduced or waived connection charges for service.
- Pursuant to Tenn. Code Ann. § 7-34-115, and § 7-82-403, municipal utilities and utility districts shall prescribe rates, fees, tolls, or charges to ensure the utility system is self-supporting.
- Any locally operated utility which allows applicable customers to pay reduced rates or charges will subsequently charge higher rates or charges to other customers in order to remain self-supporting; therefore any decrease in local government utility revenue is considered not significant.
- Pursuant to Tenn. Code Ann. § 7-32-101, § 7-32-115:
  - Municipalities have the power to reconstruct or improve any streets, alleys, highways, or other public places by widening, paving, improving flood control, water management, and soil erosion;
  - Municipalities may assess not less than two-thirds of the cost or expense for such improvements against property abutting or adjacent to the improvements;
  - After completion of the work or improvement, apportionment of costs shall be made against the land according to the frontage of the lots or parcels on the street, alley, or highway or on a value basis;
- The proposed language prohibits a unit of local government providing public services from imposing benefit assessments or special ad valorem taxes on land located within the UAA on the basis of frontage, acreage, or value unless:

- The benefit assessments or special ad valorem taxes were imposed prior to the formation of the UAA; or
  - The public service is provided to the applicable landowner on the same basis as others having the service.
- It is assumed applicable local government entities imposing benefit assessments or special ad valorem taxes against properties within an UAA will assess the cost of improvements on a per-taxpayer basis, against all applicable land owners within the area of improvement and not assess by frontage, value, or acreage of the applicable property; therefore any decrease in local government revenue is estimated to be not significant.

*Assumptions relative to total impact:*

- There will be a permissive increase in local expenditures of \$114 for every newspaper notification published for the creation of a UAA.
- It is reasonably assumed that at least one UAA will be formed in each grand division, resulting in a total permissive increase in local expenditures estimated to exceed \$342 (\$114 x 3), with the formations occurring in FY20-21.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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